



# ALL EARS!!

*The Litchfield Fund  
Weekly Newsletter*

"We just don't hear it on the street, we have our ears spread across all the fields!!!!!"



**"Open the pod bay doors, HAL!"** To which HAL 9000 calmly responds, "I'm sorry, Dave. I'm afraid I can't do that." HAL 9000 (Heuristically Programed Algorithmic computer) is the antagonist of the Discovery One crew in the movie classic *2001: A Space Odyssey*, Stanley Kubrick's adaption of Arthur C. Clarke's short story *The Sentinel*. The crew learns HAL is malfunctioning on a voyage to Jupiter & wants to shut HAL down. The very sentient HAL tries to prevent them by taking control of the ship. Dave does shut down a fearful & pleading HAL, who regresses to an early childlike state, singing the song *Daisy Bell*, "a bicycle built for two!"

**HAL 9000:** The term super computer was coined in the first half of the 20<sup>th</sup> century & applied to many large-scale, incredibly fast tabulators built in those decades. In the late '50s, engineers left *Sperry Corporation* to form *Control Data Corporation (CDC)*. Joining them was Seymour Cray, who began designing & developing a super computer. The CDC 6600, released in 1964, is considered the world's first super computer. Mr. Cray left *CDC* & designed the preeminent super computer, the *Cray* computer series. Artificial Intelligence became a scientific discipline in the late 1950s. It is interesting how quickly these concepts came together in this 1968 space thriller from Messrs. Kubrick & Clarke depicting a sentient, perhaps evil, computer interacting with humans, all while fearing its own demise. Today, we take for granted the AI, super-computing & voice interaction of our many devices & their knowledge of our habits, purchase desires, interests & so on. Last week, *All Ears!!* discussed the future of our industry. Certainly, retailers are placing much faith in technology & AI, such as this week's announcement that *Albertsons* & investment firm *Greycroft* have created a \$50M fund to invest in emerging grocery tech companies. Perhaps someday we can walk up to a store's refrigerated section & say "Open the yogurt case doors!" Let's hope the response is not, "I'm sorry. I'm afraid I can't do that."

**Industry News:** *Softbank Vision Fund* led a \$240M raise for *Brandless*. *Cavu Venture Partners* was the lead for a \$40M investment in *Bulletproof 360*. *Apeel Sciences* raised \$70M led by *Viking Global Investors* with *Andreessen Horowitz*, *Upfront Ventures* & *S2G Ventures* participating. The company is working on ways to extend produce shelf life. *San Francisco Equity Partners* took a majority stake in *Brazi Bites*. *1908 Brands* has acquired *Bundle Organics* that offers prenatal & lactation nutrition products. *Chloe's Fruit* found \$3M from Jesse Itzler, Sara Buckley, Adam Levine & Maya Moore, among others. *Fora*, a vegan aquafaba (chickpea derivative) butter, raised \$1.4M from *New Crop Capital* & *Blue Horizon*. On-line digital ordering & loyalty platform *LevelUp* was purchased by *GrubHub* for \$390M. *Food Dive* reports rumors that activist investor Dan Loeb & *Third Point* have taken a \$300M stake in *Campbell*. *US Foods* will acquire Scottsdale-based *SGA Food Group* for \$1.8B. *Focus Brands*, owner of *Cinnabon*, *Schlotszky's*, *Moe's Southwest Grill*, *Auntie Anne's* & *McAlister's Deli*, will add *Jamba Juice* for about \$200M.

Although food service sales declined 11%, *J&J Snacks* saw 3<sup>rd</sup> QTR revenue increase 4% on a 3% jump in revenue. *Danone* had a 3.3% increase in 2<sup>nd</sup> QTR sales as net income rose 21%. *Lamb Weston* finished its 2018 fiscal year, posting an 8% revenue increase & a 16% EBITDA leap. *Publix* saw 2<sup>nd</sup> QTR revenue rise 4% with net income up 24.5%, boosted by the tax cuts. Comparables rose 1.7% but were negatively impacted by Easter falling in the 1<sup>st</sup> QTR. *Sprouts Farmers Market* bumped its full-year earnings upward after a good 2<sup>nd</sup> QTR. Net income rose 10% on a 12% revenue increase. Comparables met expectations & *Sprouts* forecasted an increase. *Blue Apron* had lower revenue & a loss on 2<sup>nd</sup> QTR earnings, losing 24% of its customers. *Kellogg's* finished 2<sup>nd</sup> QTR with a 5.8% net sales increase & 17.5% EPS increase, helped by acquisitions. *Kellogg's* projects continued growth. *Treehouse Foods* continued its transition period, beating 2<sup>nd</sup> QTR estimates for adjusted revenue & EPS. Ingredient supplier *Bunge* predicts a strong finish to the year despite a 2<sup>nd</sup> QTR loss due to one-time charges; sales increased 4.3%.

*Safeway* now offers *Shipt* in thirteen markets & *Von's* initiated the service in Las Vegas. *Kroger* will launch *Kroger Ship* in 4 cities, a direct-to-consumer service offering 50,000+ items including 4.5K private label products. Shipments over \$35 are free. In a survey by *Regina Corso Consulting* & reported in *Supermarket News*, retailers felt *Amazon* was the biggest disruptor & biggest threat in the industry. *Aldi* will add 6 more stores to its existing 40 store footprint in New Jersey. *The Vitamin Shoppe* has a new incubator, named *LaunchPad*. *Zest Labs*, who had previously worked with *Walmart* on developing an app to monitor & keep food fresh, is suing the retailer charging the system they are developing, *Eden*, functions similarly to its own software, *Zest Fresh*. *Nestlé* is the target of a class action law suit claiming the Swiss company falsely labeled products as non-GMO & developed its own non-GMO seal to look like the non-GMO Project Certification seal.

Per *Brick Meets Click*, on-line grocery purchase transaction size is growing. Thirty percent of households purchase on-line, now 5.5% of the overall grocery market. *Grocery Manufacturers Association* reports that \$22B is lost each year due to on-line product outages with 15% of consumers changing sites. A study from *Nielsen* & the *Plant Based Food Association* reports plant-based food sales rose 20% in the last year, 10X the overall industry growth rate, reaching \$3.3B. *Packaged Facts* reports that the USA tea market will grow 25% by 2022 to \$10B.

**Market News:** Markets were slightly up as July's savings rate remained constant at 6.8%, spending rose & wages reached a 10-year high. July job growth missed expectations but were offset by upward adjustments to May & June's job growth. The overall unemployment rate fell to 3.9%. Demographic unemployment rates remain near or at historic lows. The unemployment rate for High School dropouts is the lowest since tracking began in 1992!

**Seeds, Sprouts, Grow, Harvest!**

The Litchfield Fund – *Tom Malenjo*

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